

FAYETTE COUNTY SCHOOL DISTRICT
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS

Year ended June 30, 2003

FAYETTE COUNTY SCHOOL DISTRICT

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FAYETTE COUNTY SCHOOL DISTRICT

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Certified Public Accountants and Advisors

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Fayette County School District
Lexington, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Fayette County School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Fayette County School District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards and the standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract - General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract - Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Fayette County School District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated September 23, 2003, on our consideration of Fayette County School District's internal control structure and a report dated September 23, 2003, on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison information on pages 41 through 42 and the combining nonmajor fund financial statements on pages 43 through 44 are presented for the purpose of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on pages 45 through 47 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole. The budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 11 and 41 through 42 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Carpenter, Mountjoy & Brunsley, P.C.

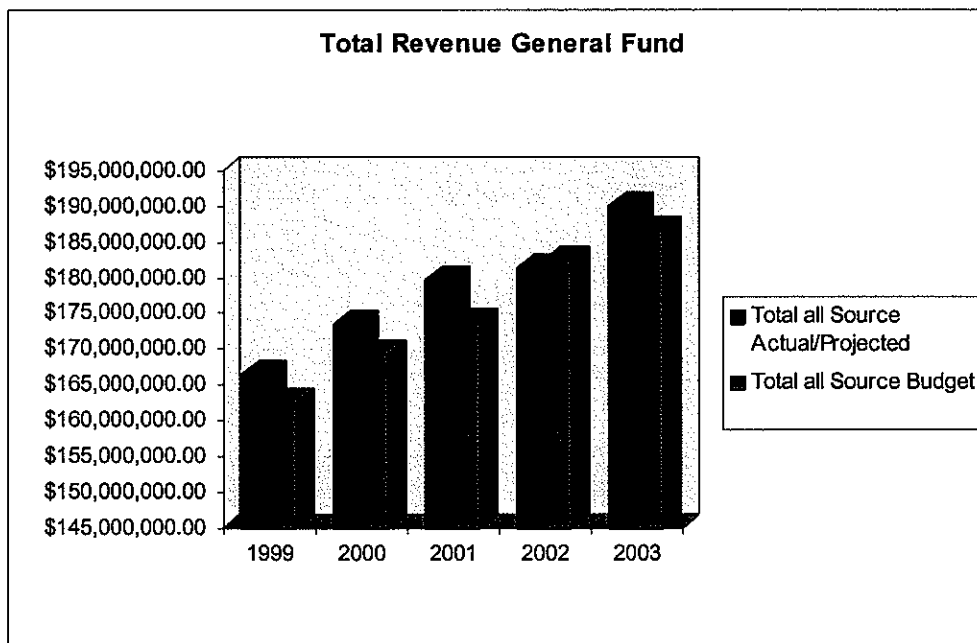
Lexington, Kentucky
September 23, 2003

**FAYETTE COUNTY PUBLIC SCHOOL DISTRICT – LEXINGTON, KY
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2003**

As management of the Fayette County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit. This is the second year the District has prepared the annual financial report using the new financial reporting model. The reporting model is a combination of both government-wide financial statements and fund financial statements.

FINANCIAL HIGHLIGHTS

- The ending cash balance for the District was \$58.3 million in 2002 and \$63.3 million in 2003. This is an increase of \$5 million. Much of this difference can be explained by normal fluctuations in revenue flow.
- From 1999 to 2003, total general fund revenue increased by 14%. Revenue from local sources increased 23 % while revenue from the state decreased 2%. The weak economy continues to affect the district with a decline in motor vehicle tax revenue, slower growth in real properties and a decline in interest on invested funds.



- Among major funds, the General Fund had \$189 million in revenue, which primarily consisted of local property, local occupational license taxes, utilities and motor vehicle taxes, federal programs and state funding (the SEEK program). There were \$190 million in expenditures.
- A major focus for the year was the recruitment of a permanent superintendent, Dr. T. Kenneth James from Little Rock, Ark. The national search drew a great deal of interest and he was hired in April to take office on July 1, 2003. Also in May a change in Board members occurred when Education Commissioner Gene Wilhoit appointed John D. Price to fill the vacated seat held by Larry Moore, who stepped down in March.

- The state continued to mandate a salary increase of \$1,080 for teachers and 2.7% for classified staff that was not funded to the District. A Board priority is funding competitive salaries for teachers for recruitment and retention consistent with a goal of improvement of student achievement. To meet this goal the district is aggressively seeking ways to increase starting teacher salaries, monitoring and reporting results for projects and initiatives, and committing funds to the district's facilities at the Board's direction. Staff continues to look for cost saving strategies throughout the support services areas to enhance successful student achievement initiatives.
- The district's long-range plan for facilities continued during fiscal year 2003. The district purchased land and broke ground for the new \$13.2 million Edythe J Hayes Middle School off Walnut Hill-Chilesburg Road to be occupied in 2004. Bonds totaling \$18.6 million were issued with approximately 4% interest. The proceeds from this bond issue also supported the renovation of Lexington Traditional Magnet Middle School, N Limestone Ave. The Board authorized a new building for Bryan Station High School on Edgeworth Drive in February. One building, Russell Elementary was closed this year according to the redefinition of district boundaries and due to deteriorating building conditions.
- The district's total net debt increased by \$5 million this year. A key factor was the bond sale, net of debt service paid. These bonds are issued as the district renovates facilities consistent with the district long-range facilities plan that is established with community input and is in keeping with Kentucky Department of Education (KDE) stringent compliance regulations.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 12-13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The proprietary fund includes the food service and vending operation. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 -40 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are **not** available for future spending.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2003

This is the second year that the District is following GASB 34 and comparing assets, liabilities and net assets. 2003 Government Wide Net Assets compared to 2002 are as follows:

	<u>2003</u>	<u>2002</u>
Current Assets	\$ 83,237,963	\$ 79,819,297
Noncurrent Assets	<u>198,938,803</u>	<u>194,606,349</u>
Total Assets	282,176,766	274,425,646
Current Liabilities	37,502,227	33,535,196
Noncurrent Liabilities	<u>144,355,722</u>	<u>139,191,320</u>
Total Liabilities	181,857,949	172,726,516
Net Assets		
Investment in capital assets (net of related debt)	48,206,022	50,469,846
Restricted	48,496,198	51,539,904
Unrestricted	<u>3,616,597</u>	<u><310,620></u>
Total Net Assets	\$ 100,318,817	\$ 101,699,130

There has been no significant change in the financial position of the district since the last audit.

The following table presents a fund accounting comparison and summary of revenue and expense for Government Funds only for the fiscal years 2003 and 2002.

	<u>2003</u>	<u>2002</u>
Revenues:		
Local revenue sources	\$137,584,133	\$129,125,854
State revenue sources	75,206,651	75,496,722
Federal sources	12,989,688	11,888,524
Intermediate sources	106,420	76,711
Investments	1,426,776	1,902,866
Other Sources	2,275,294	3,304,793
Bond Proceeds	18,183,655	6,953,329
Total revenues	\$ 247,772,617	\$ 228,748,799
Expenses:		
Instruction	128,250,724	123,647,515
Student Support Services	13,310,352	10,183,464
Instructional Support	14,772,299	15,045,611
District Administration	1,606,840	1,734,837
School Administration	16,236,897	10,969,004
Business Support	7,405,316	5,084,306
Plant Operations	29,246,076	37,201,481
Student Transportation	8,511,338	8,621,299
Central Office Support	4,943,002	5,027,939
Community Support	2,357,776	2,446,196
Other	20,343,966	12,651,021
Total expenses	\$246,984,586	\$ 232,612,673
Revenue in Excess of Expense	788,031	(3,863,874)*

*Denotes expense over revenue.

- On-behalf of amounts are not included in the above figures. On-behalf payments as defined by KDE are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits and administration fees. Further discussion of these can be found in Note R on pg. 40. Expenses that declined from 2002 to 2003 include district administration, plant operations, student transportation, central office support, community support and instructional support. There was a reclassification of expense in some areas, i.e plant operations to business support.

The changes in the balances and transactions of individual funds have not been material. Changes in final budget when compared to original are not material.

General Fund Revenue Charts 1 & 2.

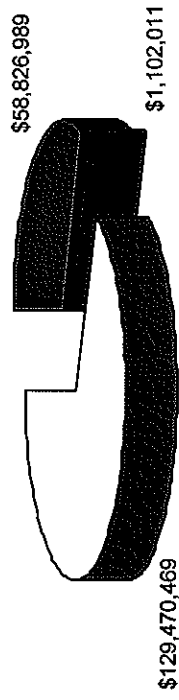
The majority of revenue in 2003 was derived from local taxes (68%) as compared with fiscal 2002 (66%) with state funding making up 31% of total revenue in 2003 compared to 32% in 2002.

General Fund Revenue Chart 1

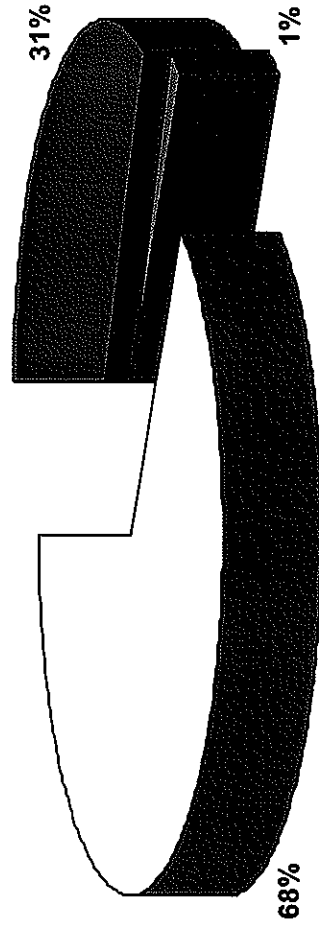
2003 Actual

General Fund Revenue Chart 1

Total \$189 Million



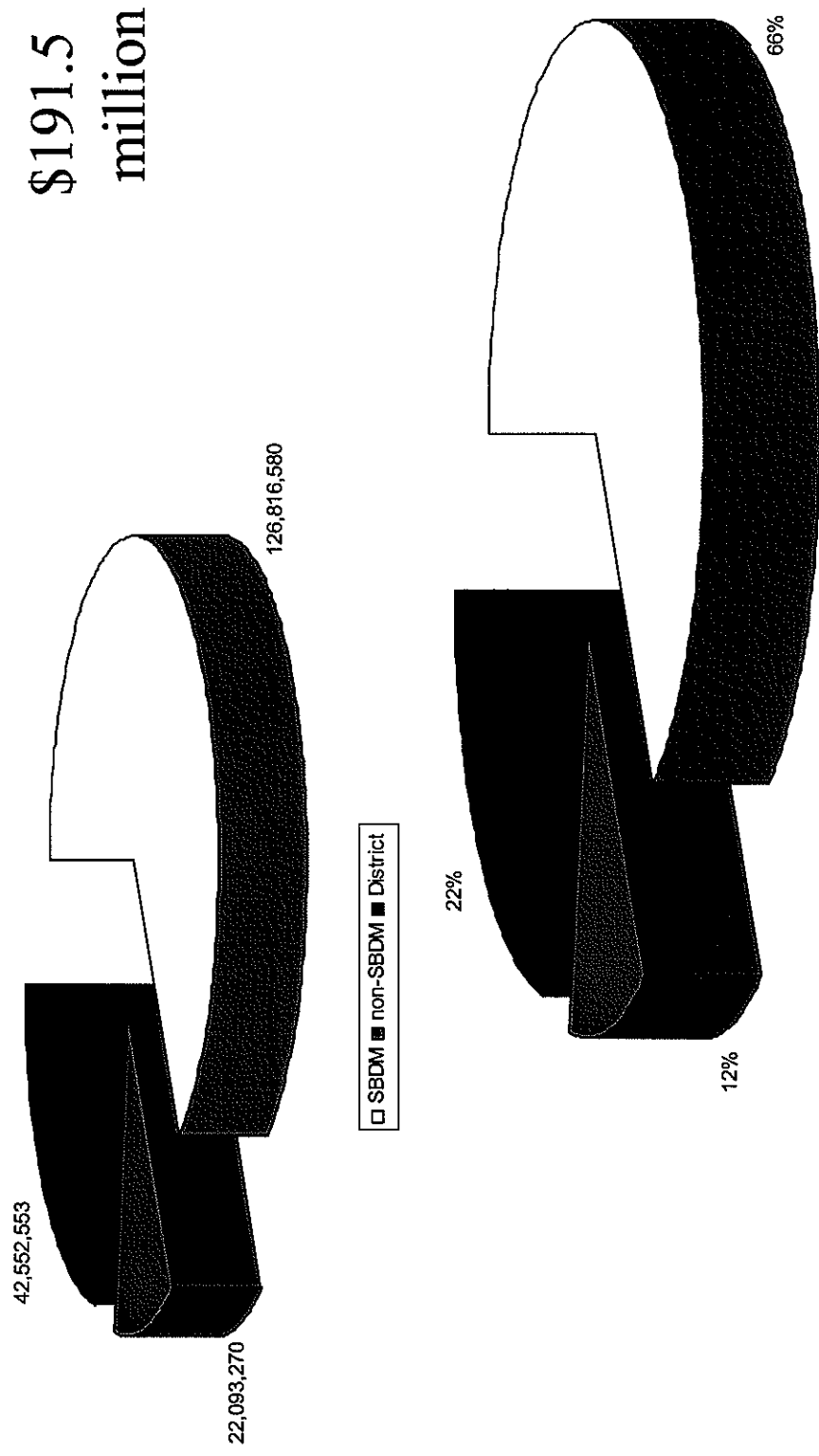
■ State Funds ■ Other Sources □ Local Taxes



Budget Allocation Charts 3 & 4

Site Based Decision Making Councils (SBDM) expended two thirds of the general fund budget, and the majority of the Non-SBDM funds were spent serving children with special needs. The remaining share was expended in central support services. This graphically depicts the allocation of resources for fiscal years 2002 and 2003.

Budget Allocation Chart 3 Expenditures 2003

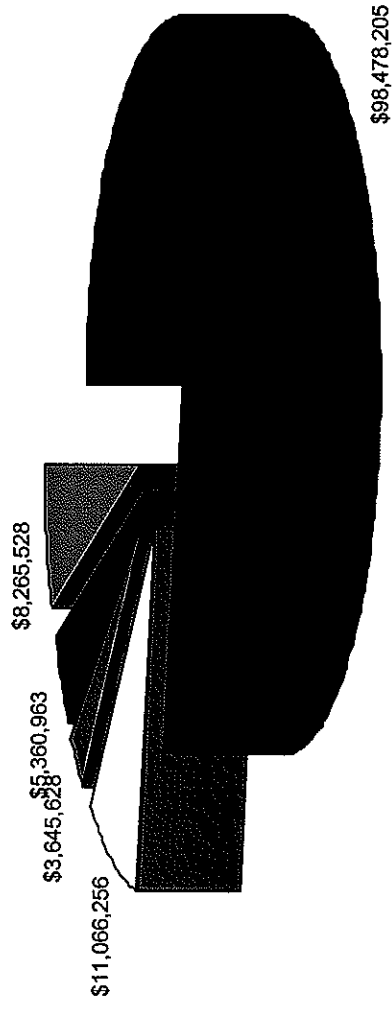


□ SBDM ■ non-SBDM ■ District

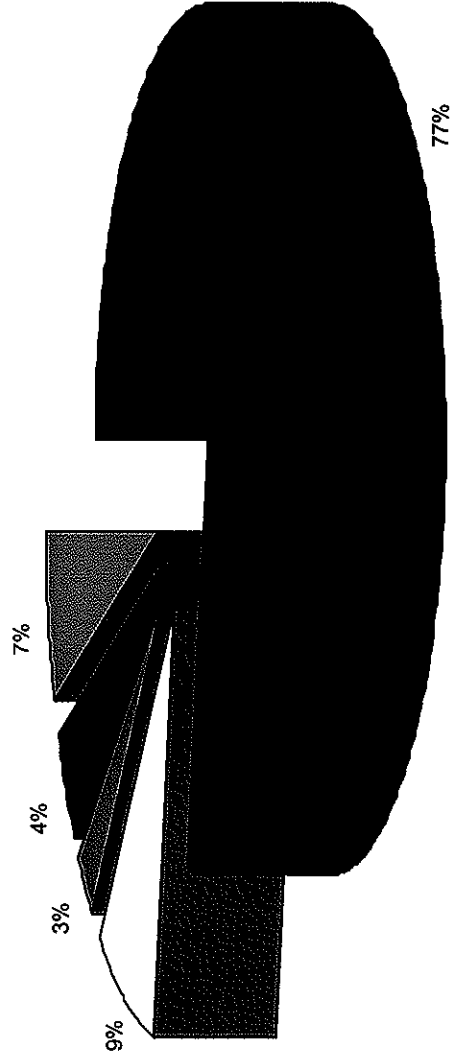
School Allocation Charts 5 & 6

Regular instruction accounts for 80% of the school level expenditures in fiscal 2002 compared to 77% in 2003.

School Allocation Chart 5 SBDM 2003



■ Regular Instruction □ Principal's Office ■ Library ■ Guidance ■ Building Maintenance



■ Regular Instruction □ Principal's Office ■ Library ■ Guidance ■ Building Maintenance

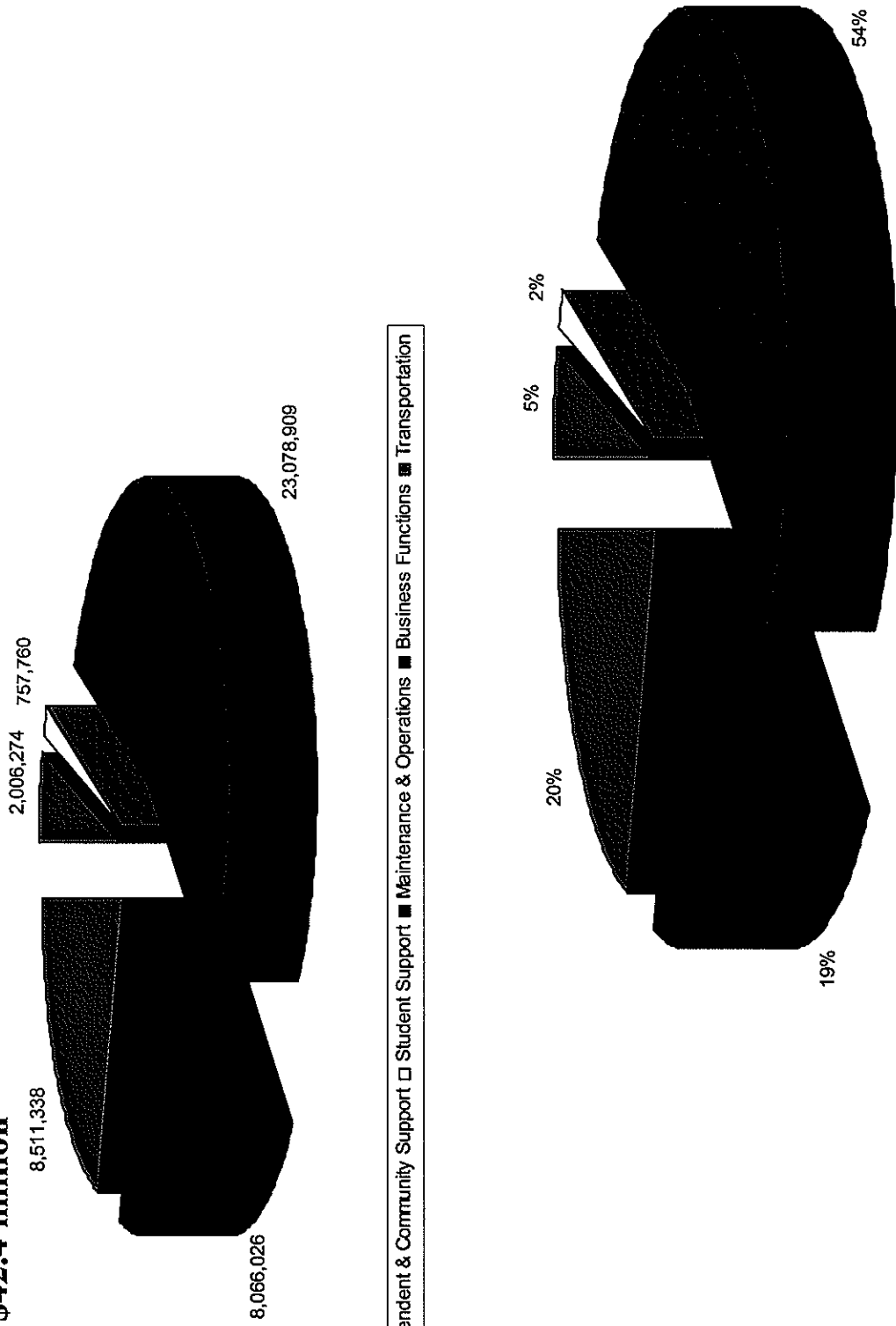
Central Office Allocation Charts 7 & 8

Many members of the community are interested in monitoring Central Support Services.

Central Office Allocation Chart 7

Total \$42.4 million

2003



■ Superintendent & Community Support □ Student Support ■ Maintenance & Operations ■ Business Functions ■ Transportation

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1- June 30; other programs, i.e. some federal operate on a different program calendar, but are reflected in the district overall budget. By Kentucky statute the budget must have a minimum 2% contingency. The district adopted a budget for 2003 with \$15.1 million in contingency that is approximately 6%. Significant Board action that impacts the finances includes the allotment of \$20 million for facility construction and renovation projects. The area experienced a major ice storm in February, which resulted in loss of power for several days. The district did not have instructional days during this time, but used several facilities for emergency shelters for the community. The district is the second largest in the state with 32,600 students and is the second largest employer in the county.

This audit is posted on the District website (www.fcps.net). Questions regarding this report should be directed to Dr. Kenneth James, Superintendent (859) 381-4104, Wayne Smiley, Director of Financial Services (859) 381-4340 or by mail at 701 East Main Street, Lexington, KY 40502.

FAYETTE COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
June 30, 2003

Assets	Governmental Activities	Business- Type Activities	Total
<u>Current Assets</u>			
Cash and cash equivalents	\$ 60,894,908	\$ 2,362,957	\$ 63,257,865
Inventory	1,492,090	232,088	1,724,178
Accounts receivable			
Taxes – current	6,767,275	-	6,767,275
Taxes – delinquent	413,355	-	413,355
Accounts receivable	938,025	46,522	984,547
Intergovernmental – State	1,965,892	-	1,965,892
Intergovernmental – Indirect Federal	4,867,834	766,305	5,634,139
Intergovernmental - Direct Federal	117,048	-	117,048
Prepaid expenses	1,738,243	-	1,738,243
Due from other funds	631,481	-	631,481
Interest receivable	3,940	-	3,940
Total current assets	79,830,091	3,407,872	83,237,963
<u>Noncurrent Assets</u>			
Bond issue costs	514,676	-	514,676
Non-depreciable assets	34,468,985	-	34,468,985
Capital assets, net	161,456,912	2,061,375	163,518,287
Investments	436,855	-	436,855
Total noncurrent assets	196,877,428	2,061,375	198,938,803
Total assets	\$ 276,707,519	\$ 5,469,247	\$ 282,176,766
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 4,298,794	\$ 150,769	\$ 4,449,563
Accrued payroll and related expenses	16,282,470	-	16,282,470
Due to other funds	-	631,481	631,481
Interest payable	2,151,661	-	2,151,661
Current portion of long-term obligations	6,165,000	-	6,165,000
Current portion of capital leases	823,569	-	823,569
Current portion of accrued sick leave	1,133,587	-	1,133,587
Deferred revenue	5,864,896	-	5,864,896
Total current liabilities	36,719,977	782,250	37,502,227
<u>Noncurrent Liabilities</u>			
Noncurrent portion of bond obligations	140,190,000	-	140,190,000
Noncurrent portion of capital lease obligations	2,628,356	-	2,628,356
Noncurrent portion of accrued sick leave	1,537,366	-	1,537,366
Total noncurrent liabilities	144,355,722	-	144,355,722
Total liabilities	181,075,699	782,250	181,857,949
<u>Net Assets</u>			
Invested in capital assets, net of related debt	46,118,972	2,087,050	48,206,022
Restricted for:			
Capital projects	32,654,306	-	32,654,306
Other purposes (nonexpendable)	15,841,892	-	15,841,892
Unrestricted	1,016,650	2,599,947	3,616,597
Total net assets	\$ 95,631,820	\$ 4,686,997	\$ 100,318,817

See independent auditor's report and accompanying notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
Year ended June 30, 2003

FUNCTIONS/PROGRAMS

Governmental Activities:

	Expenses	Charges for Services	Program Revenues Operating Grants & Contributions	Capital Grants & Contributions	Net (Expense) Revenue and Changes in Net Assets		
					Governmental Activities	Business-Type Activities	Total
Instruction	\$ 158,769,155	\$ 1,027,716	\$ 29,475,770	\$ -	\$ (128,265,669)	\$ -	\$ (128,265,669)
Support services:							
Student	13,233,999	-	-	-	(13,233,999)	-	(13,233,999)
Instruction staff	14,486,206	-	-	-	(14,486,206)	-	(14,486,206)
District administrative	1,586,873	-	-	-	(1,586,873)	-	(1,586,873)
School administrative	16,189,772	-	-	-	(16,189,772)	-	(16,189,772)
Business	7,261,082	-	-	-	(7,261,082)	-	(7,261,082)
Plant operation and maintenance	17,131,783	82,637	-	-	(17,049,146)	-	(17,049,146)
Student transportation	6,888,504	234,777	-	-	(6,653,727)	-	(6,653,727)
Central office	4,258,291	-	-	-	(4,258,291)	-	(4,258,291)
Facilities acquisition and construction	2,790,770	-	-	-	(2,790,770)	-	(2,790,770)
Community service activities	2,342,584	-	77,749	-	(2,264,835)	-	(2,264,835)
Interest on long-term debt	6,901,577	-	-	-	(6,901,577)	-	(6,901,577)
Other	14,510	-	-	-	(14,510)	-	(14,510)
Depreciation	10,439,577	-	-	-	(10,439,577)	-	(10,439,577)
Total governmental activities	262,294,683	1,345,130	29,553,519	-	(231,396,034)	-	(231,396,034)

Business-Type Activities:

Food service	10,960,071	5,195,761	5,424,955	544,720	-	205,365	205,365
Vending	19,352	21,809	325	-	-	2,782	2,782
Total business-type activities	10,979,423	5,217,570	5,425,280	544,720	-	208,147	208,147
Total primary government	\$ 273,274,106	\$ 6,562,700	\$ 34,978,799	\$ 544,720			

General Revenues:

Taxes:							
Property taxes	\$ 89,161,950	\$ -	\$ -	\$ -	\$ 89,161,950	\$ -	\$ 89,161,950
Motor vehicle taxes	8,510,616	-	-	-	8,510,616	-	8,510,616
Utility taxes	15,216,593	-	-	-	15,216,593	-	15,216,593
Occupational & license taxes	24,694,974	-	-	-	24,694,974	-	24,694,974
Revenue in lieu of taxes	20,260	-	-	-	20,260	-	20,260
State aid formula grants	90,337,875	-	-	-	90,337,875	-	90,337,875
Gains on sales of fixed assets	1,811	-	-	-	1,811	-	1,811
Investment earnings and adjustments to market value	1,438,925	-	-	-	1,438,925	40,075	1,479,000
Miscellaneous	823,830	-	-	-	823,830	-	823,830
Total general revenues and transfers	230,206,834				230,206,834	40,075	230,246,909
Change in net assets	(1,189,200)				(1,189,200)	248,222	(940,978)
Net assets - beginning	97,260,355				97,260,355	4,438,775	101,699,130
Prior period adjustment	(439,335)				(439,335)	-	(439,335)
Net assets - ending	\$ 95,631,820	\$ 4,686,997	\$ -	\$ -	\$ 95,631,820	\$ 4,686,997	\$ 100,318,817

See independent auditor's report and accompanying notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2003

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Assets and Resources:					
Cash and cash equivalents	\$ 27,546,977	\$ (517,223)	\$ 32,086,923	\$ 1,778,231	\$ 60,894,908
Inventory	1,492,090	-	-	-	1,492,090
Accounts receivable					
Taxes – current	6,713,243	-	-	54,032	6,767,275
Taxes – delinquent	413,355	-	-	-	413,355
Accounts receivable	838,224	87,839	-	11,962	938,025
Intergovernmental – State	-	1,965,892	-	-	1,965,892
Intergovernmental – Indirect Federal	-	4,867,834	-	-	4,867,834
Intergovernmental - Direct Federal	-	117,048	-	-	117,048
Prepaid expenses	627,923	-	-	1,110,320	1,738,243
Due from other funds	631,481	-	-	-	631,481
Interest receivable	-	-	-	3,940	3,940
Total assets and resources	\$ 38,263,293	\$ 6,521,390	\$ 32,086,923	\$ 2,958,485	\$ 79,830,091
Liabilities and Fund Balances:					
Liabilities					
Accounts payable	\$ 2,264,367	\$ 424,101	\$ 1,610,326	\$ -	\$ 4,298,794
Accrued payroll and related expenses	16,050,077	232,393	-	-	16,282,470
Current portion of accumulated sick leave	1,133,587	-	-	-	1,133,587
Deferred revenue	-	5,864,896	-	-	5,864,896
Total liabilities	19,448,031	6,521,390	1,610,326	-	27,579,747
Fund Balances					
Reserved for:					
Inventory and fixed assets	-	-	-	-	-
Encumbrances	2,307,137	668,500	11,880,159	-	14,855,796
Medicare reimbursement	76,625	-	-	-	76,625
Unreserved:					
Undesignated, reported in:					
General fund	16,431,500	-	-	-	16,431,500
Special revenue funds	-	(668,500)	-	-	(668,500)
Capital projects funds	-	-	18,596,438	2,485,869	21,082,307
Debt service funds	-	-	-	-	-
Permanent funds	-	-	-	472,616	472,616
Total fund balances	18,815,262	-	30,476,597	2,958,485	52,250,344
Total liabilities and fund balances	\$ 38,263,293	\$ 6,521,390	\$ 32,086,923	\$ 2,958,485	\$ 79,830,091

See independent auditor's report and accompanying notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS**

June 30, 2003

Total fund balance per fund financial statements	\$ 52,250,344
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Amounts reported for governmental activities in the statement of net
assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	195,925,897
--	-------------

Certain long-term assets are not reported in this fund financial statement because they are not available to pay current-period expenditures, but they are reported in the statement of net assets.	951,531
---	---------

Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(153,495,952)</u>
--	----------------------

Net assets for governmental activities	\$ <u>95,631,820</u>
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FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2003

	General Fund	Special Revenue	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
From local sources					
Taxes					
Property	\$ 80,419,566	\$ -	\$ -	\$ 8,742,384	\$ 89,161,950
Motor vehicle	7,700,843	-	-	809,773	8,510,616
Utilities	15,216,593	-	-	-	15,216,593
Occupational license fee	24,694,974	-	-	-	24,694,974
Tuition and fees	168,640	-	-	-	168,640
Earnings on investments	933,371	-	282,066	211,339	1,426,776
Other local revenues	1,438,493	616,562	10,000	33,273	2,098,328
Intergovernmental – intermediate	-	106,420	-	-	106,420
Intergovernmental – state	58,826,989	10,772,273	-	5,607,389	75,206,651
Intergovernmental – indirect federal	-	12,399,901	-	-	12,399,901
Intergovernmental – direct federal	-	589,787	-	-	589,787
Total revenues	189,399,469	24,484,943	292,066	15,404,158	229,580,636
Expenditures:					
Instruction	111,978,020	16,272,704	-	-	128,250,724
Support services:					
Student	9,398,412	3,911,940	-	-	13,310,352
Instruction staff	12,442,032	2,330,267	-	-	14,772,299
District administrative	1,580,583	26,257	-	-	1,606,840
School administrative	15,998,143	238,754	-	-	16,236,897
Business	7,405,316	-	-	-	7,405,316
Plant operation and maintenance	17,424,366	59,843	-	-	17,484,209
Student transportation	8,511,338	-	-	-	8,511,338
Central office	4,919,422	23,580	-	-	4,943,002
Facilities acquisition and construction	-	-	11,761,867	-	11,761,867
Community service activities	425,692	1,902,336	-	29,748	2,357,776
Other	-	-	-	20,343,966	20,343,966
Total expenditures	190,083,324	24,765,681	11,761,867	20,373,714	246,984,586
Deficit of revenues over expenditures	(683,855)	(280,738)	(11,469,801)	(4,969,556)	(17,403,950)
Other Financing Sources (Uses)					
Proceeds from sale of bonds	-	-	17,120,868	1,062,787	18,183,655
Proceeds from sale of fixed assets	8,326	-	-	-	8,326
Operating transfers in	585,586	866,324	12,737,365	9,066,420	23,255,695
Operating transfers out	(4,614,627)	(585,586)	(3,764,500)	(14,290,982)	(23,255,695)
Total other financing sources (uses)	(4,020,715)	280,738	26,093,733	(4,161,775)	18,191,981
Excess (deficit) of revenue and other financing sources over expenditures and other financing uses	(4,704,570)	-	14,623,932	(9,131,331)	788,031
Fund balance, July 1, 2002, as originally stated	23,094,938	864,229	15,852,665	12,089,816	51,901,648
Prior period adjustment	424,894	(864,229)	-	-	(439,335)
Fund balance, June 30, 2003	\$ 18,815,262	\$ -	\$ 30,476,597	\$ 2,958,485	\$ 52,250,344

See independent auditor's report and accompanying notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2003

Net change in total fund balances per fund financial statements	\$ 788,031
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which capital outlays exceeds depreciation expense for the year.	2,281,400
The proceeds for the issuance of bonds provide current financial resources and are reported in this fund financial statement but they are presented as liabilities in the statement of net assets.	(18,183,655)
Unrealized gains and losses are not presented in this financial statement because they do not provide or use current financial resources but they are presented in the statement of activities.	12,149
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	14,081,055
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.	<u>(168,180)</u>
Change in net assets of governmental activities	\$ <u>(1,189,200)</u>

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2003

	Food Service Fund	Other Enterprise Funds	Total
Assets			
<u>Current Assets</u>			
Cash and cash equivalents	\$ 2,335,778	\$ 27,179	\$ 2,362,957
Inventory	232,088	-	232,088
Accounts receivable			
Taxes – current	-	-	-
Taxes – delinquent	-	-	-
Accounts receivable	44,790	1,732	46,522
Intergovernmental – state	-	-	-
Intergovernmental – indirect federal	766,305	-	766,305
Intergovernmental – direct federal	-	-	-
Interest receivable	-	-	-
Investments	-	-	-
Total current assets	3,378,961	28,911	3,407,872
<u>Noncurrent Assets</u>			
Capital assets, net	2,061,375	-	2,061,375
Investments	-	-	-
Total noncurrent assets	2,061,375	-	2,061,375
Total assets	\$ 5,440,336	\$ 28,911	\$ 5,469,247
Liabilities			
<u>Current Liabilities</u>			
Accounts payable	\$ 147,533	\$ 3,236	\$ 150,769
Accrued payroll and related expenses	-	-	-
Due to other funds	631,481	-	631,481
Deferred revenue	-	-	-
Current portion of long-term obligations	-	-	-
Accrued sick leave	-	-	-
Total current liabilities	779,014	3,236	782,250
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,061,375	-	2,061,375
Unrestricted	2,599,947	25,675	2,625,622
Total net assets	\$ 4,661,322	\$ 25,675	\$ 4,686,997

See independent auditor's report and accompanying notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

PROPRIETARY FUNDS

Year ended June 30, 2003

	<u>Food Service Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
Operating Revenues:			
Lunchroom sales	\$ 4,912,497	\$ -	\$ 4,912,497
Other operating revenues	<u>283,264</u>	<u>21,809</u>	<u>305,073</u>
Total operating revenues	<u>5,195,761</u>	<u>21,809</u>	<u>5,217,570</u>
Operating Expenses:			
Salaries and wages	5,407,525	-	5,407,525
Materials and supplies	5,274,930	19,352	5,294,282
Depreciation	277,616	-	277,616
Other operating expenses	<u>-</u>	<u>-</u>	<u>-</u>
Total operating expenses	<u>10,960,071</u>	<u>19,352</u>	<u>10,979,423</u>
Operating income (loss)	(5,764,310)	2,457	(5,761,853)
Non-Operating Revenues (Expenses):			
Federal grants	5,271,476	-	5,271,476
Donated commodities	544,720	-	544,720
Contributions	-	325	325
State grants	153,479	-	153,479
Interest income	<u>40,075</u>	<u>-</u>	<u>40,075</u>
Total non-operating revenues	<u>6,009,750</u>	<u>325</u>	<u>6,010,075</u>
Net income	245,440	2,782	248,222
Retained earnings, July 1, 2002	<u>4,415,882</u>	<u>22,893</u>	<u>4,438,775</u>
Retained earnings, June 30, 2003	\$ <u><u>4,661,322</u></u>	\$ <u><u>25,675</u></u>	\$ <u><u>4,686,997</u></u>

See independent auditor's report and accompanying
notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year ended June 30, 2003

Cash Flows from Operating Activities

Cash received from:

Lunchroom sales

\$ 4,908,839

Government grants

4,514,135

Other activities

456,994

Cash paid to/for:

Employees

(5,269,607)

Supplies

(4,701,631)

Net cash used by operating activities

(91,270)

Cash Flows from Capital and Related Financing Activities

Purchases of capital assets

(200,663)

Cash Flows from Investing Activities

Receipt of interest income

40,075

Net decrease in cash and cash equivalents

(251,858)

Balances, beginning of year

2,614,815

Balances, end of year

\$ 2,362,957

Reconciliation of operating income to net cash
used by operating activities

Operating income

\$ 248,222

Adjustments to reconcile operating income to net cash provided
(used) by operating activities

Depreciation

277,616

Interest income

(40,075)

Change in assets and liabilities

Receivables

(762,882)

Inventory

19,121

Accounts payable

28,810

Due to other funds

137,918

Net cash used by operating activities

\$ (91,270)

Schedule of non-cash transactions:

Donated commodities received from federal government

\$ 544,720

See independent auditor's report and accompanying
notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2003

	Private Purpose Trust Funds	Agency Fund
Assets		
Cash and cash equivalents	\$ (44,259)	\$ 2,091,799
Accounts receivable	-	8,524
Investment income receivable	9,368	-
Loans receivable	197,333	-
Investments	<u>781,208</u>	<u>-</u>
Total assets	\$ <u>943,650</u>	\$ <u>2,100,323</u>
Liabilities		
Accounts payable	\$ -	\$ 66,422
Due to student groups	<u>-</u>	<u>2,033,901</u>
Total liabilities	<u>-</u>	<u>2,100,323</u>
Net Assets Held in Trust	\$ <u>943,650</u>	\$ <u>-</u>

See independent auditor's report and accompanying
notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

Year ended June 30, 2003

	<u>Private Purpose Trust Funds</u>
Additions	
Net interest and investment gains	\$ 4,074
Deductions	
Benefits paid	<u>704</u>
Change in net assets	3,370
Net assets, beginning of year	<u>940,280</u>
Net assets, end of year	\$ <u><u>943,650</u></u>

See independent auditor's report and accompanying
notes to financial statements

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Fayette County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Fayette County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Fayette County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Fayette County Board of Education Finance Corporation – In a prior year the Board of Education resolved to authorize the establishment of the Fayette County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation's Board of Directors.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 45 through 47. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) Debt Service Funds
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

- A. The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.
- B. The business agent fund is used to account for vending machine revenues.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

II. Proprietary Fund Type (Enterprise Fund) - continued

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

A. The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2003, to finance the General Fund operations were \$.472 per \$100 valuation for real property, \$.480 per \$100 valuation for business personal property and \$.592 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

In addition, the District levies an occupational license tax of .5% on salaries, wages, commissions, and other compensation of individuals for work done and services performed or rendered in the county and on the net profits of all businesses, professions, or occupations from activities conducted in the county.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

The budget for the Special Revenue Fund consists of the sum of each active grant's budget. Large variances between budgeted and actual activity can occur because grants with little activity during the year will have their entire budget rolled up into the combined budget for all grants.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund is stated at cost and uses the specific identification method and the general fund is stated at cost and uses the first-in, first-out method for inventory.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Assets.

The permanent funds record investments at their quoted market value prices for purposes of the Statement of Net Assets. All realized gains and losses and changes in fair value are recorded in the Statement of Activities. Long-term investments are not recorded on the fund financial statements nor are unrealized gains and losses.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the carrying amount of the District's total cash and cash equivalents was \$65,305,390. Of the total cash balance, \$400,000 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Bank One	\$ 70,485,515	\$ 63,213,606
Central Bank (agency funds)	<u>2,194,253</u>	<u>2,091,799</u>
	<u>\$ 72,679,768</u>	<u>\$ 65,305,405</u>

Breakdown per financial statements:

Governmental funds	\$ 60,894,908
Proprietary funds	2,362,957
Private purpose trust funds	(44,259)
Agency funds	<u>2,091,799</u>
	<u>\$ 65,305,405</u>

NOTE D – INVESTMENTS

The following is a comparison of the cost and fair value of investments held in trust at June 30, 2003:

	<u>Cost</u>	<u>Fair Value</u>
Private Purpose Trust Funds		
Mutual funds	\$ 714,204	\$ 781,208
Permanent Funds		
Bonds and notes	403,746	436,855

The investments on the balance sheet of the Debt Service Fund are funds held by the financial institution for future debt service payments. The investments consist mainly of U.S. Treasury certificates and the market value approximates their cost.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

<u>Governmental Activities</u>	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2003</u>
Land	\$ 5,176,106	\$ 600,012	\$ -	\$ 5,776,118
Buildings and improvements	245,871,351	8,248,327	-	254,119,678
Technology equipment	22,515,273	1,479,501	178,843	23,815,931
Rolling stock	131,213	212,492	-	343,705
Audio-visual equipment	1,095,895	27,017	5,850	1,117,062
Other	2,967,428	70,828	1,101	3,037,155
Furniture and fixtures	210,175	38,971	-	249,146
Vehicles	14,166,451	1,730,307	87,537	15,809,221
Food service equipment	57,025	1,045	-	58,070
Construction in progress	<u>26,772,694</u>	<u>1,920,173</u>	<u>-</u>	<u>28,692,867</u>
Totals at historical cost	318,963,611	14,328,673	273,331	333,018,953
Less: accumulated depreciation				
Buildings and improvements	95,639,459	6,735,233	-	102,374,692
Technology equipment	16,396,509	2,780,675	172,328	19,004,856
Rolling stock	93,450	7,888	-	101,338
Audio-visual equipment	403,555	75,858	5,850	473,563
Other	2,202,767	175,325	1,101	2,376,991
Furniture and equipment	92,017	10,053	-	102,070
Vehicles	12,045,534	652,953	87,537	12,610,950
Food service equipment	<u>47,004</u>	<u>1,592</u>	<u>-</u>	<u>48,596</u>
Total accumulated depreciation	<u>126,920,295</u>	<u>10,439,577</u>	<u>266,816</u>	<u>137,093,056</u>
Governmental Activities				
Depreciable Capital Assets – Net	160,094,516	1,368,911	6,515	161,456,912
Non-depreciable Capital Assets	<u>31,948,800</u>	<u>2,520,185</u>	<u>-</u>	<u>34,468,985</u>
Total	\$ <u>192,043,316</u>	\$ <u>3,889,096</u>	\$ <u>6,515</u>	\$ <u>195,925,897</u>
<u>Business-Type Activities</u>				
Food service and equipment	\$ 5,519,443	\$ 200,663	\$ -	\$ 5,720,106
Technology equipment	<u>241,230</u>	<u>-</u>	<u>-</u>	<u>241,230</u>
Totals at historical cost	5,760,673	200,663	-	5,961,336
Less: accumulated depreciation				
Food service equipment	3,396,855	270,146	-	3,667,001
Technology equipment	<u>225,490</u>	<u>7,470</u>	<u>-</u>	<u>232,960</u>
Total accumulated depreciation	<u>3,622,345</u>	<u>277,616</u>	<u>-</u>	<u>3,899,961</u>
Business-Type Activities				
Depreciable Capital Assets – Net	\$ <u>2,138,328</u>	\$ <u>(76,953)</u>	\$ <u>-</u>	\$ <u>2,061,375</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE F – BONDED DEBT AND LEASE OBLIGATIONS

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1992A	\$ 8,705,000	3.000% - 6.200%
1992B	11,205,000	2.750% - 6.000%
1993	7,745,000	3.250% - 3.375%
1995A	1,100,000	4.950% - 5.100%
1995B	6,275,000	4.750% - 4.880%
1995C	26,605,000	4.500% - 5.250%
1996	14,785,000	5.000% - 5.700%
1997	17,710,000	5.000% - 5.375%
1998	15,575,000	4.375% - 4.500%
1999	27,330,000	5.000% - 5.500%
2000	14,365,000	5.300% - 5.500%
2001	12,880,000	4.000% - 5.250%
2002	7,095,000	1.900% - 4.125%
2003A	17,505,000	2.000% - 4.500%
2003B	1,070,000	1.100% - 1.250%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Fayette County Fiscal Court to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. As of June 30, 2002 the total bond principal and interest payable was \$141,090,000 and \$73,232,449, respectively. As of June 30, 2003, the total bond principal and interest payment was \$146,355,000 and \$76,061,165, respectively. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE F – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2003-04	\$ 6,165,000	\$ 7,164,295	\$ 2,661,681	\$ 10,667,614
2004-05	6,490,000	6,869,264	2,670,007	10,689,256
2005-06	6,910,000	6,544,864	2,678,431	10,776,433
2006-07	7,350,000	6,197,853	2,647,770	10,900,083
2007-08	7,720,000	5,836,074	2,642,063	10,914,011
2008-09	7,055,000	5,480,966	1,693,380	10,842,586
2009-10	6,135,000	5,193,100	504,888	10,823,212
2010-11	6,315,000	4,889,988	503,285	10,701,704
2011-12	6,795,000	4,589,624	328,554	11,056,070
2012-13	7,260,000	4,248,547	292,716	11,215,831
2013-14	7,350,000	3,900,128	175,826	11,074,302
2014-15	7,860,000	3,514,513	175,826	11,198,687
2015-16	8,410,000	3,099,325	175,825	11,333,500
2016-17	9,785,000	2,651,974	175,825	12,261,149
2017-18	10,145,000	2,102,034	175,826	12,071,208
2018-19	10,740,000	1,576,491	160,953	12,155,538
2019-20	11,385,000	1,044,787	81,738	12,348,049
2020-21	3,985,000	576,838	-	4,561,838
2021-22	4,100,000	382,500	-	4,482,500
2022-23	<u>4,400,000</u>	<u>198,000</u>	<u>-</u>	<u>4,598,000</u>
	\$ <u>146,355,000</u>	\$ <u>76,061,165</u>	\$ <u>17,744,594</u>	\$ <u>204,671,571</u>

During the year ended June 30, 2003 the District made additional borrowings of \$18,575,000 and principal payments of \$13,310,000.

FAYETTE COUNTY SCHOOL DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year ended June 30, 2003

NOTE G – CAPITAL LEASE PAYABLE

The following is an analysis of the leased property under capital lease by class:

<u>Classes of Property</u>	<u>Book value as of June 30, 2003</u>
Buses	\$ 3,198,271
Office Equipment	86,918

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2003:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2004	\$ 953,045
2005	808,260
2006	546,257
2007	380,786
2008	242,143
Thereafter	<u>1,022,460</u>
Total minimum lease payments	3,952,951
Less: Amount representing interest	<u>(501,026)</u>
Present Value of Net Minimum Lease Payments	\$ <u><u>3,451,925</u></u>

NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide for the minimum future rental payments as of June 30, 2003 as follows:

Year ending June 30:

2004	\$ 17,702
2005	<u>8,851</u>
Total minimum payments	\$ <u><u>26,553</u></u>

Rent expense for the year ended June 30, 2003 was \$17,702.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE I – RETIREMENT PLANS

Certified employees are covered under the Kentucky Teachers Retirement System ("KTRS"). Funding for the Plan is provided through payroll withholdings of 9.855% and matching state contributions. The matching contributions are paid by the Federal programs for any salaries paid by that program.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% and a Board contribution of 6.34% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$179,419,690. The payroll for employees covered under KTRS was \$137,355,201 and for CERS was \$36,090,400.

The contribution requirement for CERS for the year ended June 30, 2003 was \$4,092,651 which consisted of \$2,288,131 from the Board and \$1,804,520 from the employees. The Board paid \$907,142 from federal grant monies to KTRS in matching contributions for federally funded employees.

Benefits under both plans will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the plans' status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2002 (in thousands)	CERS June 30, 2002
Assets available for benefits, at fair value	\$ 13,588,847	\$ 6,883,298,951
Pension benefit obligation	<u>15,695,574</u>	<u>5,492,646,422</u>
(Underfunded)/overfunded pension benefit obligations	\$ <u>(2,106,727)</u>	\$ <u>1,390,652,529</u>

Ten-year historical trend information showing KTRS's and CERS's progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2002 comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District's portion of the unfunded past service cost or the vested benefits of the District's portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE J - CONTINGENCIES

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE K - LITIGATION

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

NOTE L - INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

NOTE M - RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

FAYETTE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED

Year ended June 30, 2003

NOTE M - RISK MANAGEMENT - CONTINUED

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE N - DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund balance:

General	\$	4,704,570
FSPK		1,780,737
Debt Service		7,523,626
Anthony Dey Trust		2,942

NOTE O - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

NOTE P - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Technology Match	\$ 866,324
Operating	Building	Debt Service	Debt Service	4,346,890
Operating	Capital Outlay	Debt Service	Debt Service	2,817,737
Operating	Special Revenue	General	Indirect Cost Allocation	585,586
Operating	General	Construction	Construction	1,846,509
Operating	Building	Construction	Construction	7,126,355
Operating	General	Debt Service	Debt Service	1,901,793

FAYETTE COUNTY SCHOOL DISTRICT**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**

Year ended June 30, 2003

NOTE Q – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2003 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Food Service Fund	\$ 631,481	\$ -
Food Service Fund		
General Fund	-	631,481

NOTE R - ON-BEHALF PAYMENTS

For the year ended June 30, 2003 total payments of \$31,510,886 were made for life insurance, health insurance, KTRS matching and administrative fees by the Commonwealth of Kentucky on behalf of the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts on the statement of activities.

NOTE S - PRIOR PERIOD ADJUSTMENT

The financial statements include prior period adjustments as follows:

In fiscal year 2003, the District reported parts and fuel inventory related to the Transportation Department as capitalized asset as required by GASB 34. In prior periods the costs associated with these inventories were expensed as incurred. The operating statements include prior period adjustments that reflect revisions necessary to reconcile the physical inventories to the general ledger system.

In accordance with directions received from the Kentucky Department of Education, the District adjusted the ending fund balance for the Special Revenue Fund to zero. The District reported a prior period adjustment in order to zero the ending fund balance in special revenue as of June 30, 2002.

These adjustments are summarized below:

	<u>Govern- mental</u>	<u>Business- Type</u>	<u>Total</u>
Capitalize transportation inventory	\$ 424,894	\$ -	\$ 424,894
Close special revenue fund to zero	<u>(864,229)</u>	<u>-</u>	<u>(864,229)</u>
	\$ <u>(439,335)</u>	\$ <u>-</u>	\$ <u>(439,335)</u>

NOTE T - SUBSEQUENT EVENTS

Subsequent to June 30, 2003 the District was awarded the following major grants:

Smaller Learning Communities Implementation Grant	\$ 2,500,000
National Science Foundation Grant	1,120,009
Emergency Response and Crisis Management	244,978
Carol M. White Physical Education Program	216,900